

ERSA Research Brief

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The Impact of Political Competition on Economic Growth: Evidence from Municipalities in South Africa

Nonso Obikili

This paper examines the impact of political competition on economic growth. I argue that under certain circumstances, political competition can be a hindrance to growth and to improvements in the provision of public services. Using South Africa as a case study, I show that municipalities with lower levels of political competition have grown faster over the last 20 years and have shown the most improvement in supply of some public goods.

Many authors have attempted to study the relationship between political systems, political contests and economic growth. Pinto and Timmons (2005) find that across countries political competition decreases the rate of physical capital accumulation and labour mobilization but increases the rate of human capital accumulation. They find that political competition systematically affects growth although the effects are both positive and negative. Besley, Persson, and Sturm (2010) find that in the United States, lack of political competition in states is associated with anti-growth policies such as higher taxes and lower capital spending. They argue for a link between low levels of political competition and slow growth. Ricciuti (2003), Goeminne, Geys, and Smolders (2007) and Volkerink and de Haan (2000) all find that some measures of political fragmentation, which can be thought of as potential political competition, are associated with larger government deficits and debt. The consensus appears to be that the context of the particular country matters for the relationship between politics and growth.

The South African context is ideal for examining some of these effects. It is a stable democracy with reasonably free and fair elections held every five years since the end of apartheid. Some of the much highlighted disadvantages of autocratic regimes, such as coups, lack of individual freedoms and so on are somewhat mitigated in South Africa. However voting patterns, at least shortly after the fall of apartheid were driven largely by race and tribe. These voting patterns make South Africa a good test case for examining the effect of political competition on growth controlling for reverse causality.

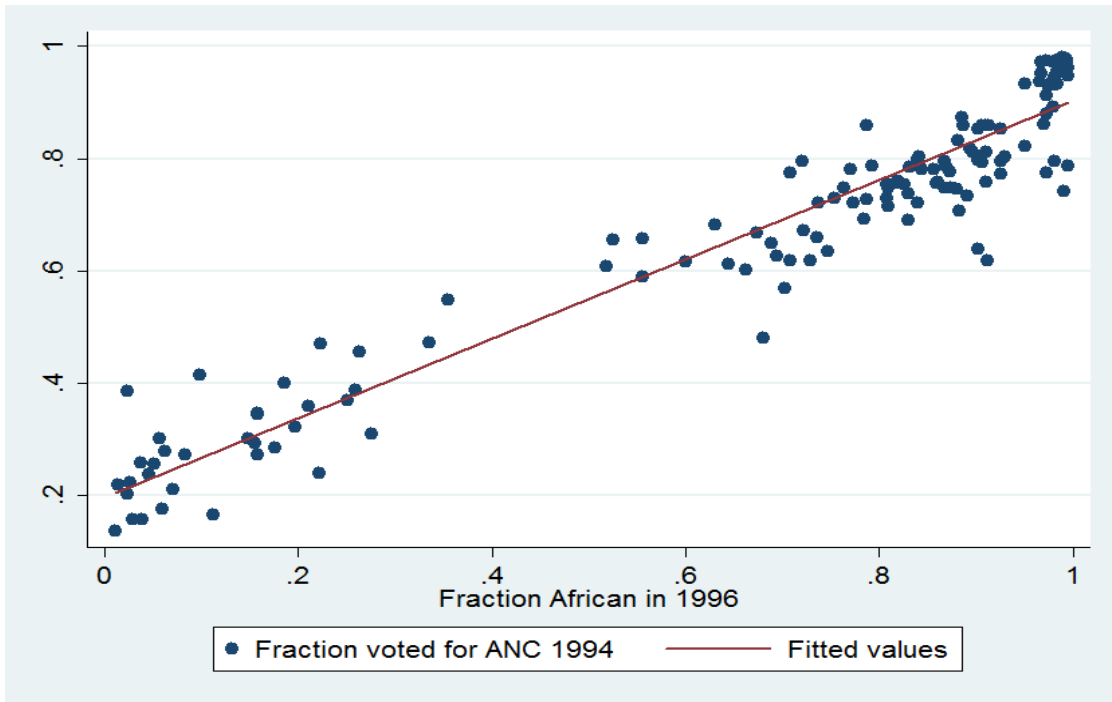


Figure 1: Fraction voted for ANC in 1994 and Fraction black in 1996. Excluding Kwazulu-Natal Province

In this paper I use data from the 1994 and 1999 elections in South Africa combined with satellite data on night lights and data from the South African census to test this hypothesis. I show that between 1994 and 2012, municipalities with a decisive vote either for or against the dominant national party, the ANC, grew faster than municipalities with more competition amongst various political parties. This relationship is also shown to be true for improvements in some public services.

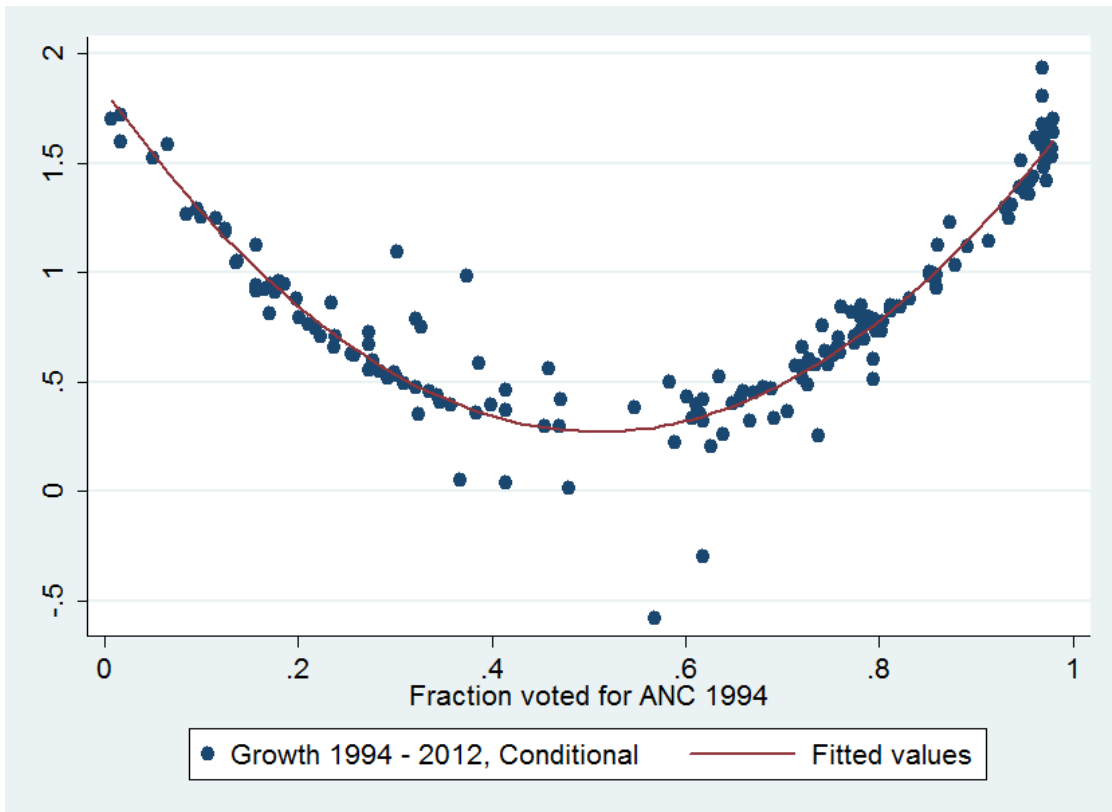



Figure 2: Fraction voted for ANC in 1994 against Growth between 1994 and 2012.



I argue that causality runs from political competition to growth by showing that in South Africa, voting patterns are largely driven by race and ethnicity. I strengthen this argument by using race and ethnicity backed voting patterns in 1994 as an instrument for voting patterns in 1999. Finally I use individual level surveys to show that political competition in municipalities is associated with a dissatisfaction with the current democracy and government as well as lower optimism about the future.

These results show that, under certain conditions, intense political competition can have negative effects on growth in economic activity and improvement in public services. It does not imply that political competition should be stifled, as to most this is a desirable outcome. Better understanding the nature of democratic politics and some of the negative side effects would go some way into improving democratic outcomes.